

Message Text

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ACTION EA-14

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FM AMEMBASSY MANILA

TO SECSTATE WASHDC 2036

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E.O. 11652: N/A

TAGS: EGEN, RP

SUBJECT: PHILIPPINE ECONOMIC ASSESSMENT AND PRICE INCREASES

REF: A) MANILA 1523; B) STATE 048618 C) MANILA A-44

1. REFTEL B REQUESTED EMBASSY COMMENTS ON IMPLICATION OF INCREASES REPORTED REPAIR C IN INDEXES OF PHILIPPINE CONSUMER AND WHOLESALE PRICES FOR REAL GROWTH RATE OF PHILIPPINE ECONOMY IN 1973.

2. LEVELS OF PHILIPPINE CONSUMER AND WHOLESALE PRICE INDEXES ARE NOT FACTORS IN CALCULATION OF REAL PHILIPPINE ECONOMIC GROWTH RATE. RATHER, THE FIRST STEP IN PREPARATION OF PHILIPPINE NATIONAL ACCOUNTS IS TO ESTIMATE GROSS NATIONAL PRODUCT DIRECTLY ON A QUANTITATIVE OR REAL BASIS, EXPRESSING THE VALUE OF VARIOUS GOODS AND SERVICES IN CONSTANT 1967 PRICES. ESTIMATES OF THE VALUE OF GNP IN CURRENT PRICES ARE SUBSEQUENTLY OBTAINED BE (A) DETERMINING THE EXTENT OF PRICE CHANGES BETWEEN 1967 AND THE CURRENT YEAR FOR THE VARIOUS CATEGORIES OF GOODS AND SERVICES MAKING UP THE

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NATIONAL INCOME AND PRODUCT ACCOUNTS AND (B) ADJUST-

ING THE VALUE OF OUTPUT IN EACH CATEGORY TO REFLECT THESE PRICE CHANGES. THE ORDER OF CONFIDENCE THAT CAN BE ATTACHED TO ESTIMATES OF REAL PHILIPPINE GNP AND GROWTH IN REAL GNP IS THUS ONE DEGREE GREATER THAN THAT WHICH CAN BE ATTACHED TO CORRESPONDING ESTIMATES RELATED TO CURRENT GNP. THE EMBASSY ESTIMATE OF 7 PERCENT OR MORE REAL PHILIPPINE GNP GROWTH IN 1973 IS CONSEQUENTLY NOT DEPENDENT UPON ESTIMATES OF THE PHILIPPINE INFLATION RATE ALTHOUGH THE REAL INCOME OF MANY PHILIPPINE WAGE EARNERS CLEARLY WILL BE.

3. PHILIPPINE CONSUMER AND WHOLESALE PRICE INDEXES ARE IMPORTANT AS REFLECTIONS OF PRICE CHANGES RECORDED IN SELECTED LISTS OF COMMODITIES. HOWEVER, MANY OF THE GOODS AND SERVICES PRODUCED BY THE ECONOMY ARE NOT INCLUDED ON THESE LISTS, AND THE INDEXES ARE NOT NECESSARILY REPRESENTATIVE OF CHANGES IN THE PRICES OF SUCH EXCLUDED GOODS AND SERVICES. THE IMPACT OF CHANGES IN INDEX LEVELS ON ECONOMIC WELFARE IS ALSO CONSTRAINED BY THE CONSIDERABLE EXTENT TO WHICH THE LISTED ITEMS ARE CONSUMED BY PRODUCERS AND DO NOT ENTER THE MARKET ECONOMY. IN TRYING TO MEASURE OVERALL INFLATION OR THE AVERAGE AMOUNT OF PRICE INCREASES FOR ALL THE GOODS AND SERVICES COMPOSING PHILIPPINE GNP, AS OPPOSED TO REAL WAGES OR ECONOMIC WELFARE, THE IMPLICIT PHILIPPINE DEFLATOR OF 15 PERCENT MENTIONED IN REFTTEL (A) PROVIDES A MORE COMPREHENSIVE GAUGE THAN EITHER CONSUMER PRICE OR WHOLESALE PRICE INDEXES. THIS DEFLATOR IS IN ACTUALITY THE RECIPROCAL OF THE COMPARATIVE LEVEL OF THE AVERAGE INFLATOR USED TO CONVERT PHILIPPINE REAL GNP INTO CURRENT PRICES IN 1972 WITH THAT USED IN 1973. AN INCREASE IN THE VALUE OF THIS DEFLATOR FOR 1973 WOULD, THEREFORE, BE ASSOCIATED WITH AN INCREASE IN THE GROWTH RATE OF GNP EXPRESSED IN CURRENT PRICES BUT WOULD NOT CHANGE THE REAL GROWTH RATE.

SULLIVAN

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